American Medical Association and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2018 and 2017, Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2018, and Independent Auditors' Reports in accordance with *Government Auditing Standards* and the Uniform Guidance

AMERICAN MEDICAL ASSOCIATION AND SUBSIDIARIES

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Independent Auditor's Report

The Board of Trustees of
American Medical Association:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the American Medical Association (the "AMA") and subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the AMA's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the AMA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the AMA and subsidiaries as of December 31, 2018 and 2017, and the results of its activities and changes in its equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 3 and 12 to the consolidated financial statements, the AMA has changed its method of accounting for leases in 2018 due to the early adoption of Accounting Standards Update 2016-02, *Leases*. Our opinion is not modified with respect to that matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2019 on our consideration of the AMA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the AMA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the AMA's internal control over financial reporting and compliance.

Deloitte & Touche LLP

February 15, 2019

American Medical Association and Subsidiaries
Consolidated Statements of Activities
Years Ended December 31
(in millions)

	2018	2017
Revenues		
Membership dues	$ 36.4	$ 37.9
Advertising	14.9	14.1
Periodical print subscription revenues	4.7	5.2
Periodical online revenues	28.5	26.2
Other publishing revenue	13.9	12.8
Books, newsletters and online product sales	30.5	31.8
Royalties and credentialing products	172.6	162.3
Insurance commissions	36.2	35.8
Investment income (Note 4)	13.3	11.0
Grants and other income	10.3	10.5
Total revenues	**361.3**	**347.6**
Expenses		
Cost of products sold and selling expenses	27.7	28.2
Contribution to general and administrative expenses	**333.6**	**319.4**
General and administrative expenses		
Compensation and benefits	191.6	171.0
Occupancy	19.7	18.4
Travel and meetings	15.3	14.4
Technology costs	24.2	23.0
Marketing and promotion	13.4	20.0
Professional services and consulting	25.4	28.7
Other operating expenses	20.9	21.8
Total general and administrative expenses	**310.5**	**297.3**
Operating results before income taxes	23.1	22.1
Income taxes (Note 9)	5.1	8.3
Net operating results	**18.0**	**13.8**
Non-operating items		
Net (loss) gain on investments (Note 4)	(39.7)	45.3
Other	-	0.1
Total non-operating items	**(39.7)**	**45.4**
Revenues (less than) in excess of expenses	**(21.7)**	**59.2**
Changes in defined benefit postretirement plans, other than periodic expense, net of tax (Notes 7, 8 and 9)	10.8	11.4
Change in association equity	**(10.9)**	**70.6**
Change in donor restricted association equity		
Restricted contributions	0.3	0.3
Net assets released from restriction	(0.3)	(0.2)
Change in association equity – donor restricted	**-**	**0.1**
Change in total association equity	**(10.9)**	**70.7**
Total association equity at beginning of year	559.7	489.0
Total association equity at end of year	**$ 548.8**	**$ 559.7**

See accompanying notes to the consolidated financial statements.

American Medical Association and Subsidiaries
Consolidated Statements of Financial Position
As of December 31
(in millions)

	2018	2017
Assets		
Cash, cash equivalents and donor-restricted cash	$ 41.3	$ 48.0
Fiduciary funds (Note 2)	20.7	20.1
Accounts receivable and other receivables, net of an allowance for doubtful accounts of $0.2 in 2018 and $0.1 in 2017	56.7	59.6
Inventories	2.2	2.3
Prepaid expenses and deposits	6.2	5.9
Deferred income taxes (Note 9)	3.7	4.4
Investments (Note 4)	655.1	653.4
Property and equipment, net (Note 6)	46.2	47.1
Operating lease right-of-use assets (Notes 3 and 12)	60.7	-
Prepaid pension costs (Note 8)	-	1.1
Other assets (Note 5)	7.1	6.8
	$ 899.9	**$ 848.7**

	2018	2017
Liabilities, deferred revenue and association equity		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 15.6	$ 16.7
Accrued payroll and employee benefits (Notes 7 and 8)	134.1	135.9
Insurance premiums and other fiduciary funds payable	20.6	20.5
Income taxes payable (Note 9)	1.2	1.9
Operating lease liability (Notes 3 and 12)	99.2	-
Deferred tenant improvement allowances (Notes 3 & 10)	-	17.1
Deferred rent obligations (Notes 3 & 11)	-	22.5
	270.7	214.6
Deferred revenue		
Membership dues	16.1	17.0
Subscriptions, licensing, insurance commissions and royalties	61.7	54.4
Grants and other	2.6	3.0
	80.4	74.4
Association equity	547.1	558.0
Donor-restricted association equity	1.7	1.7
Total Association equity	548.8	559.7
	$ 899.9	**$ 848.7**

See accompanying notes to the consolidated financial statements.

American Medical Association and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31
(in millions)

	2018	2017
Cash flows from operating activities		
Change in total association equity	$ (10.9)	$ 70.7
Adjustments to reconcile change in association equity to net cash provided by operating activities		
Depreciation and amortization	12.1	11.9
Pension and postretirement health care expense	8.5	8.3
Net loss (gain) on investments	39.7	(45.3)
Noncash credit for changes in defined benefit postretirement plans other than periodic expense, net of tax	(10.8)	(11.4)
Other	0.3	0.4
Changes in assets and liabilities		
Accounts receivable and other receivables	2.7	(19.5)
Fiduciary funds, net of payable	(0.5)	0.9
Inventories	0.1	0.1
Prepaid expenses and deposits	(0.3)	(0.6)
Deferred income taxes	(0.1)	(0.6)
Accounts payable, accrued liabilities and income taxes	0.2	1.4
Deferred rent obligations and tenant improvement allowances	0.6	1.2
Deferred revenue	6.0	22.5
Net cash provided by operating activities	47.6	40.0
Cash flows from investing activities		
Purchase of property and equipment	(12.9)	(10.3)
Purchase of investments	(412.6)	(331.7)
Proceeds from sale of investments	371.2	321.1
Net cash used in investing activities	(54.3)	(20.9)
Net change in cash, cash equivalents and donor restricted cash	**(6.7)**	**19.1**
Cash, cash equivalents and donor restricted cash at beginning of year	48.0	28.9
Cash, cash equivalents and donor restricted cash at end of year	**$ 41.3**	**$ 48.0**
Noncash investing activities		
Accounts payable for property and equipment additions	**$ 0.3**	**$ 0.7**

See accompanying notes to the consolidated financial statements.

1. Nature of operations

The American Medical Association (AMA) is a national professional association of physicians with approximately 250 thousand members. The AMA serves the medical community and the public through standard setting and implementation in the areas of science, medical education, improving health outcomes, delivery and payment systems, ethics, representation and advocacy, policy development, and image and identity building. The AMA provides information and services to hundreds of thousands of physicians and includes journal and book publishing, physician credentialing, database licensing, insurance and other professional services for physicians.

The AMA classifies all association results as revenues and expenses in the consolidated statements of activities, except non-operating items. Non-operating items include net realized and unrealized gains and losses on investments and other non-recurring income or expense.

Donor-restricted equity includes contributions for physician liability reform and scope of practice. These funds are restricted for use to areas such as national tort reform campaign efforts and are not available for general use within the AMA.

2. Significant accounting policies

Consolidation policy

The accompanying consolidated financial statements include the accounts of the AMA and its subsidiaries (collectively, the AMA). In 2015, AMA established a for-profit subsidiary, Health2047, Inc. (Health2047) designed to enhance AMA's ability to contribute to improvements in the U.S. health care system and population health. In 2017, Health2047 established a for-profit corporation, Akiri, Inc. (Akiri), designed to improve the securing, sharing and use of trusted health data. In 2018, Health2047 established a second for-profit corporation, First Mile Care, Inc. (FMC), that intends to create a platform, tools and support to combat pre-diabetes in the community. As of December 31, 2018, Health2047 has consolidated the operations of both Akiri and FMC. All intercompany transactions have been eliminated.

Use of estimates

Preparation of financial statements in conformity with accounting principles generally accepted (GAAP) in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses as reflected in the consolidated financial statements. Actual results could differ from estimates.

Cash equivalents

Cash equivalents consist of liquid investments with original maturities of three months or less and are recorded at cost, which approximates fair value.

Fiduciary funds

One of the AMA's subsidiaries, the AMA Insurance Agency, Inc. (Agency), in its capacity as an insurance broker, collects premiums from the insured and, after deducting its commission, remits the premiums to the underwriter of the insurance coverage. Unremitted insurance premiums are invested on a short-term basis and are held in a fiduciary capacity. The AMA also collects and holds contributions on behalf of a separate unincorporated entity with $2.6 million and $2.4 million held at December 31, 2018 and 2017, respectively.

Inventories

Inventories, consisting primarily of books and paper for publications, are valued at the lower of cost or market.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Equipment and software are depreciated or amortized over three to 10 years. Leasehold improvements are depreciated over the shorter of the estimated useful lives or the remaining lease term.

Revenue recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration that AMA expects to receive in exchange for those products or services. AMA enters into contracts that generally include only one product or service and as such, are distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Nature of Products and Services

Membership dues are deferred and recognized as revenue in equal monthly amounts during the applicable membership year, which is a calendar year. Dues from lifetime memberships are recognized as revenue over the approximate life of the member.

Licensing and subscriptions to periodicals, site licenses, newsletters or other online products are recognized as revenue ratably over the terms of the subscriptions or service period. Advertising revenue and direct publication costs are recognized in the period the related periodical is issued. Book and product sales are recognized at the time the book or product is shipped or otherwise delivered to the customer. Royalties are recognized as revenue over the royalty term. Insurance brokerage commissions on individual policies are recognized as revenue on the date they become effective or are renewed, to the extent services under the policies are complete. Brokerage commissions or plan rebates on the group products are recognized as revenue ratably over the term of the contract as services are rendered.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. AMA records a receivable when revenue is recognized. For agreements covering subscription or service periods, AMA generally records a receivable related to revenue recognized for the subscription, license or royalty period. For sales of books and products, AMA records a receivable at the time the product is shipped or made available. These amounts are included in accounts receivable on the statements of financial position and the balance, net of allowance for doubtful accounts, was $54.7 million and $58.3 million as of December 31, 2018 and 2017, respectively.

The allowance for doubtful accounts reflects AMA's best estimate of probable losses inherent in the accounts receivable balance. The allowance is based on historical experience and other currently available evidence.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. Some annual licensing agreements carry longer payment terms. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component.

Prepaid dues are included as deferred membership dues revenue in the consolidated statements of financial position. Prepayments by customers in advance of the subscription, royalty or insurance coverage period are recorded as deferred subscriptions, licensing, insurance commissions and royalty revenue in the consolidated statements of financial position.

Income taxes

The AMA is an exempt organization as defined by Section 501(c)(6) of the Internal Revenue Code and is subject to income taxes only on income determined to be unrelated business taxable income. The AMA's subsidiaries are taxable entities and are subject to income taxes.

Reclassifications

Subsequent to the issuance of the 2017 financial statements, management adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not for Profit Entities* which changed the presentation within the Functional Expense note. As a result, management conformed the 2017 amounts to the 2018 presentation.

3. New accounting standards update

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with *Customers*. This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU replaces most existing revenue recognition guidance in U.S. GAAP. The FASB deferred the effective date of the new recognition standard and it is now effective for the AMA for years beginning after December 31, 2018. Early adoption is permitted and AMA adopted this standard in 2018. Adoption of the new standard did not have a material impact on AMA's consolidated financial statements. See Note 2 for additional information.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the statement of financial position for both operating and capital leases. Topic 842 was subsequently amended by ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*; and ASU No. 2018-11, *Targeted Improvements*. The new standard establishes a right-of-use (ROU) model that requires lessees to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. AMA adopted the new standard on January 1, 2018 and has used that date as the date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for periods before January 1, 2018. Adoption of this standard as of January 1, 2018 resulted in (1) the recognition of $61.4 million in new ROU assets and $101 million in lease liabilities on AMA's consolidated statements of financial position for office and equipment operating leases; (2) the derecognition of $22.5 million in liabilities for deferred rent expense; and (3) the derecognition of $17.1 million in liabilities for tenant allowances received by AMA from landlords as lease incentives. There is no material impact on the consolidated statements of activities. See Note 12 for additional information.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not for Profit Entities*. This reexamines existing standards for financial statement presentation by not for profit entities (NFP), focusing on improving net asset classification requirements and information provided in financial statements and notes about liquidity, financial performance, and cash flows, as well as enhancement of disclosures about governing board imposed restrictions. ASU No. 2016-14 is effective for the AMA for years beginning after December 31, 2017. The adoption of this standard expanded certain footnote disclosures but did not have an impact on AMA's consolidated financial statements. See Note 13 for required disclosure on availability of financial assets and liquidity and Note 16 for an analysis of expenses by both natural and functional classifications.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of the Net Periodic Cost and Net Periodic Postretirement Benefit Cost*. This requires an employer to report the service cost component of retirement benefits in the same line item or items as the other compensation costs arising from services rendered by the pertinent employees during the period while the other components of net benefit costs will be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. ASU No. 2017-07 is effective for the AMA for years beginning after December 15, 2018, but early adoption is permitted. The AMA estimates that there will be no impact on pension expense due to the expected plan termination in 2019, and approximately $0.4 million of postretirement healthcare expense will be reclassified from operating expense to a separate line outside of income from operations. Amounts on the statement of financial position sheet will be unchanged. See Note 7 for more information on the expected plan termination.

In October 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This aligns the accounting for costs to implement a cloud computing arrangement that is a service with the guidance on capitalizing costs for developing or obtaining internal-use software. The new standard is effective for the AMA for years beginning after December 15, 2020. There will be no material impact on the AMA's financial statements upon adoption.

4. Investments

Investments include marketable securities and a private equity investment that are carried at fair value.

In determining fair value, the AMA uses various valuation approaches. The FASB's ASC Topic 820, *Fair Value Measurements and Disclosures,* establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset based on market data obtained from sources independent of the organization. Unobservable inputs are inputs that would reflect an organization's assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets that the organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2—Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

The AMA uses prices and inputs that are current as of the measurement date, obtained through a third-party custodian from independent pricing services.

A description of the valuation techniques applied to the major categories of investments measured at fair value is outlined below.

Exchange-traded equity securities are valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are categorized in Level 1 of the fair value hierarchy.

Mutual funds are open-ended Securities and Exchange Commission (SEC) registered investment funds with a daily net asset value (NAV). The mutual funds allow investors to sell their interests to the fund at the published daily NAV, with no restrictions on redemptions. These mutual funds are categorized in Level 1 of the fair value hierarchy.

U.S. government securities are valued using quoted prices provided by a vendor or broker-dealer. These securities are categorized in Level 2 of the fair value hierarchy, as it is difficult for the custodian to accurately assess at a security level whether a quoted trade on a bond represents an active market.

U.S. government agency securities consist of two categories of agency issued debt. Non-callable agency issued debt securities are generally valued using dealer quotes. Callable agency issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. Agency issued debt securities are categorized in Level 2 of the fair value hierarchy.

The fair value of corporate debt securities is estimated using recently executed transactions, market price quotations (where observable) or bond spreads. If the spread data does not reference the issuer, then data that reference a comparable issuer are used. Corporate debt securities are generally categorized in Level 2 of the fair value hierarchy.

Foreign and state government securities are valued using quoted prices in active markets when available. To the extent quoted prices are not available, fair value is determined based on interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the bond in terms of issuer, maturity, and seniority. These investments are generally categorized in Level 2 of the fair value hierarchy.

Investments also include investments in a diversified closed end private equity fund with a focus on buyout opportunities in the United States and the European Union, as well as investments in a venture capital fund focused on companies developing promising health care technologies that can be commercialized into revolutionary products and services that improve the practice of medicine and the delivery and management of health care. The investments are not redeemable and distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next four to ten years. The fair value estimates of these investments are based on NAV as provided by the investment manager. Unfunded commitments as of December 31, 2018 totaled $32.8 million.

The AMA manages its investments in accordance with Board-approved investment policies that establish investment objectives of real inflation-adjusted growth over the investment time horizon, with diversification to provide a balance between long-term growth objectives and potential liquidity needs.

The following table presents information about the AMA's investments measured at fair value as of December 31. In accordance with Subtopic 820-10, investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

	2018	2017
Level 1 – Quoted prices in active market for identical securities		
Equity securities	$ 271.0	$ 312.1
Fixed-income mutual funds	15.7	15.6
	286.7	327.7
Level 2 – Significant other observable inputs		
Debt securities		
Corporate	89.3	90.4
U.S. government and federal agency	238.5	200.7
Foreign government	25.9	30.0
U.S. state government	0.2	0.3
	353.9	321.4
Level 3 – Significant Unobservable inputs	-	-
Other investments measured at NAV – Private equity and venture capital funds	14.5	4.3
Investments	$ 655.1	$ 653.4

Interest and dividends are included in investment income as operating revenue while realized and unrealized gains and losses are included as a component of non-operating items.

Investment income consists of:

	2018	2017
Investment dividend and interest income	$ 15.8	$ 13.5
Management fees	(2.5)	(2.5)
	$ 13.3	$ 11.0

Non-operating items include:

	2018	2017
Realized gains on investments, net	$ 15.2	$ 12.0
Unrealized gains on investments, net	(54.9)	33.3
	$ (39.7)	$ 45.3

5. Other assets

Other assets include investments in mutual funds maintained in separate accounts designated for various nonqualified benefit plans that are not available for operations. Mutual funds are open-ended SEC registered investment funds with a daily NAV. The mutual funds allow investors to sell their interests to the fund at the published daily NAV, with no restrictions on redemptions. These mutual funds are categorized in Level 1 of the fair value hierarchy. The investments totaled $5.9 million and $6.8 million at 2018 and 2017, respectively.

Expenses related to the development of custom applications pursuant to a customer contract have been deferred until completion of development and recognition of the revenue under the contract. These costs were deferred in 2018 and total $1.2 million.

6. Property and equipment

Property and equipment at December 31 consists of:

	2018	2017
Leasehold improvements	$ 37.6	$ 35.9
Furniture and office equipment	18.7	18.2
Information technology hardware and software	97.9	99.4
	154.2	153.5
Accumulated depreciation and amortization	(108.0)	(106.4)
	$ 46.2	$ 47.1

7. Retirement pension and savings plans

The AMA has a defined benefit pension plan covering eligible salaried and hourly employees. The plan is designed to pay a monthly retirement benefit that, together with Social Security benefits, provides retirement income based on employees' earnings, age and years of service. Other employers participate in this plan and assets and liabilities are allocated between the AMA and the other employers.

The AMA amended the pension plan to freeze pension benefits as of December 31, 2002. After that date, no individual can become a participant in the plan and no further benefits accrue under the plan. Individuals not vested as of that date were credited for future years of service for vesting purposes only. As a result, the projected benefit obligation is equal to the accumulated benefit obligation for this plan.

In June 2018 the AMA adopted plan amendments that terminated the pension plan effective October 31, 2018 with an expected distribution of all plan assets in mid- to late-2019. Plan participants will be given the option to accept either a lump-sum payment, immediate annuity or deferral of payment until retirement through a group annuity contract purchased from an insurance company selected by AMA. The benefit obligation as of December 31, 2018 includes actuarial assumptions regarding the payment of lump sum distributions in 2019 and the cost of purchasing an annuity contract for participants deferring receipt of payment until retirement.

The changes in benefit obligation and plan assets were as follows:

	2018	2017
Change in benefit obligation		
Benefit obligation at beginning of year	$ 124.0	$ 123.6
Interest cost	4.0	4.5
Benefits paid	(10.9)	(6.6)
Plan amendments	1.6	-
Actuarial (gain) loss	(1.2)	2.5
Benefit obligation at end of year	$ 117.5	$ 124.0
Change in plan assets		
Fair value of plan assets at beginning of year	$ 125.1	$ 119.5
Return on plan assets	(0.7)	12.2
Benefits paid	(10.9)	(6.6)
Fair value of plan assets at end of year	$ 113.5	$ 125.1

The funded status and amounts recognized in the AMA's consolidated statements of financial position at December 31 are:

	2018	2017
Fair value of plan assets	$ 113.5	$ 125.1
Projected benefit obligation	117.5	124.0
(Accrued) prepaid pension costs	$ (4.0)	$ 1.1

In accordance with ASC Topic 958-715, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* all previously unrecognized actuarial losses are reflected in the consolidated statements of financial position. The pension plan accumulated losses and prior service costs not yet recognized as a component of periodic pension expense but included in accumulated other comprehensive loss at December 31 are:

	2018	2017
Actuarial losses	$ 36.7	$ 37.0
Prior service cost	1.6	-
	$ 38.3	$ 37.0

Due to the anticipated distribution of pension assets in 2019, both amounts will be included as a component of pension expense in 2019.

The weighted-average assumptions used in determining the December 31 benefit obligations were:

	2018	2017
Discount rate	4.1%	3.4%

The AMA recognizes pension expense in its consolidated statements of activities. The provisions of ASC Topic 958-715 require the AMA to recognize settlement charges based on the lump-sum benefit payments in 2018 and 2017. The components of pension expense are:

	2018	2017
Interest cost	$ 4.0	$ 4.5
Expected return on plan assets	(6.5)	(6.9)
Lump-sum settlement charges	2.7	1.4
Recognized actuarial loss	3.6	3.9
Pension expense	$ 3.8	$ 2.9

Pension-related changes, other than periodic pension expense, that have been included as a charge or credit to unrestricted equity consist of:

	2018	2017
Actuarial (losses) gains arising during period	$ (6.0)	$ 2.8
Prior service costs for plan amendments	(1.6)	-
Reclassification adjustment for losses reflected in periodic pension expense	6.3	5.3
Change in unrestricted equity	$ (1.3)	$ 8.1

Actuarial assumptions used in determining pension expense were:

	2018	2017
Discount rate	3.4%	3.8%
Expected long-term return on plan assets	5.5%	5.75%

To develop the expected long-term rate of return on plan assets for the pension plan, the AMA considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the target asset allocation to develop the
expected long-term rate of return on assets assumption for the portfolio. The AMA's investment strategy reflects the expectation that equity securities will outperform debt securities over the long term. Assets are invested in a prudent manner to maintain the security of funds while maximizing returns within the plan's investment policy guidelines. The strategy is implemented utilizing actively managed assets from the categories listed below.

The investment goal was to provide a total return that, over the long term, increases the ratio of plan assets to liabilities subject to an acceptable level of risk. This was accomplished through diversification of assets in accordance with the investment policy. Periodic rebalancing occurred after the end of each calendar quarter, as required by the policy.

The target allocations for plan assets were 45 percent equity securities, 50 percent corporate bonds and U.S. Treasury and Agency securities, and 5 percent in cash and cash equivalents as of December 31, 2017. During 2018, plan assets have been liquidated and transferred to short-term investments and the liquidation and transfer to short-term investments will continue over the next six to nine months in anticipation of the distribution of plan assets.

Equity securities include investments in large-cap, mid-cap, and small-cap companies primarily located in the United States and large- to mid-cap companies outside the United States through investments in mutual funds.

Mutual funds are open-ended SEC registered investment funds with a daily NAV.

Fixed-income securities include primarily investment grade corporate bonds of companies from diversified industries and U.S. Treasury or Agency securities and foreign government securities, either through direct investment in bonds or through common trusts, as well as an allocation to high-yield U.S. corporate bonds, with a target of 4 percent of the portfolio.

The following fair value hierarchy tables present information about the AMA pension plan investments measured at fair value as of December 31.

	2018	2017
Level 1 – Quoted prices in active markets for identical securities		
U.S. equity securities	$ 31.6	$ 45.8
International mutual funds	-	9.5
Fixed-income mutual funds	56.6	37.1
High-yield fixed income mutual fund	-	5.1
	88.2	97.5
Level 2 – Significant other observable inputs		
Debt securities		
Corporate	8.9	9.8
U.S. government and agency	15.4	16.7
Foreign government	1.0	1.1
	25.3	27.6
Level 3 – Significant unobservable inputs	-	-
Marketable investments – all levels	$ 113.5	$ 125.1

The AMA currently anticipates making a contribution to the pension plan in 2019, as plan assets are less than plan liabilities as calculated for the expected distribution. This estimate is based on current tax laws, plan asset performance and liability assumptions, which are subject to change. Any shortfall in plan asset performance from the expected rate of return, or increase in plan liabilities due to the distribution will cause contributions to increase.

All pension benefit payments are expected to be paid in 2019 via lump sum payments or by the purchase of annuities on behalf of the plan participants.

The AMA also has a 401(k) retirement and savings plan, which allows eligible employees to contribute up to 75 percent of their compensation annually, subject to Internal Revenue Service (IRS) limits. The AMA matches 100 percent of the first three percent and 50

percent of the next two percent of employee contributions. The AMA may, in its discretion, make additional contributions for any year in an amount up to two percent of the compensation for each eligible employee. Compensation is subject to IRS limits and excludes bonuses and severance pay. AMA matching and discretionary contribution expense totaled $6.1 million and $5.6 million in 2018 and 2017, respectively.

The AMA also maintains a non-qualified, unfunded supplemental pension plan for certain long-term employees. Participation in the plan was closed in 1994. The AMA recognizes the liability in its consolidated statements of financial position. The accumulated benefit obligation and liability totaled $0.3 million and
$0.4 million in 2018 and 2017, respectively. The AMA uses the same discount rates noted above for the pension plan to determine the plan benefit obligation. There was a $0.1 million credit to expense for this plan in 2018 and no expense in 2017. There was a $0.1 million increase in prior service costs due to plan amendments in 2018 and no changes in pension actuarial losses that are not yet reflected in periodic pension expense in 2018 or 2017. The prior service cost is included in unrestricted equity in 2018 and 2017. Payments from the plan totaled $0.1 million in 2018 and no payments were made in 2017.

The AMA expects to pay approximately $0.3 million in benefits from the supplemental pension plan in 2019 due to the pension plan termination.

8. Postretirement health care benefits

The AMA provides health care benefits to retired employees who were employed on or prior to December 31, 2010. After that date, no individual can become a participant in the plan. Generally, qualified employees become eligible for these benefits if they retire in accordance with provisions similar to the AMA's pension plan and are participating in the AMA medical plan at the time of their retirement. The AMA shares the cost of the retiree health care payments with retirees, paying approximately 60 to 80 percent of the benefit payments. The AMA has the right to modify or terminate the postretirement benefit plan at any time. Other employers participate in this plan and assets and liabilities are allocated between the AMA and the other employers.

The AMA has applied for and received the federal subsidy to sponsors of retiree health care benefit plans that provides a prescription drug benefit that is actuarially equivalent to Medicare Part D under the *Medicare Prescription Drug, Improvement and Modernization Act of 2003*. In accordance with ASC Topic 958-715, the AMA initially accounted for the subsidy as an actuarial experience gain to the accumulated postretirement benefit obligation.

The postretirement health care plan is unfunded. In accordance with ASC Topic 958-715, the AMA recognizes this liability in its consolidated statements of financial position.

The following reconciles the change in accumulated benefit obligation and the amounts included in the consolidated statements of financial position at December 31:

	2018	2017
Change in benefit obligation		
Benefit obligation at beginning of year	$ 103.1	$ 106.4
Service cost	1.7	1.7
Interest cost	3.5	4.0
Benefits paid	(4.0)	(3.6)
Participant contributions	1.2	1.0
Federal subsidy	0.2	0.2
Plan amendments	0.8	(2.8)
Actuarial gains	(14.2)	(3.8)
Accrued postretirement benefit costs	$ 92.3	$ 103.1

The postretirement health care plan accumulated losses and prior service credits not yet recognized as a component of periodic postretirement health care expense, but included as an accumulated charge or credit to equity as of December 31 are:

	2018	2017
Actuarial losses	$ 6.3	$ 21.0
Prior service credits	(1.8)	(3.5)
	$ 4.5	$ 17.5

An estimated $0.8 million in prior service credits and no actuarial losses will be included as components of postretirement health care expense in 2019.

Actuarial assumptions used in determining the accumulated benefit obligation at December 31 are:

	2018	2017
Discount rate	4.3%	3.7%
Initial health care cost trend	6.03%	6.22%
Ultimate health care cost trend	4.5%	4.5%
Year that the rate reaches the ultimate trend rate	2038	2038

The AMA recognizes postretirement health care expense in its consolidated statements of activities. The components of expense are:

	2018	2017
Service cost	$ 1.7	$ 1.7
Interest cost	3.5	4.0
Recognized actuarial loss	0.5	0.5
Amortization of prior service credits	(0.9)	(0.8)
Postretirement health care expense	$ 4.8	$ 5.4

Postretirement health care-related changes, other than periodic expense, that have been included as a charge or credit to unrestricted equity consist of:

	2018	2017
Actuarial gains arising during period	$ 14.2	$ 3.8
Reclassification adjustment for losses reflected in periodic postretirement health care expense	0.5	0.5
Plan amendments	(0.8)	2.8
Reclassification adjustment for recognition of prior service credits	(0.9)	(0.8)
Change in unrestricted equity	$ 13.0	$ 6.3

Actuarial assumptions used in determining postretirement health care expense are the same assumptions noted in the table above for determining the accumulated benefit obligation, except as follows:

	2018	2017
Discount rate	3.7%	4.3%
Initial health care cost trend	6.22%	6.39%

A one-percentage point change in assumed health care cost rates would have the following effect:

	1% Increase	1% Decrease
Effect on postretirement service and interest cost	$ 1.2	$ (0.9)
Effect on postretirement benefit obligation	$ 17.6	$ (13.9)

The following postretirement health care benefit payments are expected to be paid by the AMA, net of contributions by retirees and federal subsidies:

2019	$ 2.7
2020	2.9
2021	3.0
2022	3.2
2023	3.5
2024 – 2028	20.1

9. Income taxes

The provision for income taxes includes:

	2018	2017
Operating		
Current	$ 5.5	$ 8.9
Deferred	(0.1)	0.6
Valuation allowance	(0.3)	(1.2)
	5.1	8.3
Tax expense related to credits or charges to equity		
Deferred	0.8	3.0
	$ 5.9	$ 11.3

As prescribed under Accounting Standards Codification (ASC) Topic 740, Income Taxes, the AMA determines its provision for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for future tax effects of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

The deferred tax benefit or charge from credits or charges to equity represents the estimated tax benefit from recording unrecognized actuarial losses and prior service credits for both the pension and postretirement health care plans, pursuant to ASC Topic 958-715.

Valuation allowances are provided to reduce deferred tax assets to an amount that is more likely than not to be realized. The AMA evaluates the likelihood of realizing its deferred tax assets by estimating sources of future taxable income and assessing whether or not it is likely that future taxable income will be adequate for the AMA to realize the deferred tax asset. The AMA established an initial valuation allowance in 2009 to reflect the fact that deferred tax assets include future expected benefits, largely related to retiree health care payments, that may not be deductible due to a projected lack of taxable advertising income in future years. Increases or decreases in deferred tax assets, where future benefits are considered unlikely, will result in an equal and offsetting change in the valuation reserve. If the AMA were to make a determination in future years that these deferred tax assets would be realized, the related valuation allowance would be reduced and a benefit to earnings recorded.

In 2018, AMA's for-profit subsidiaries' income tax was reduced by approximately $2.5 million due to changes in tax laws, with the federal rate decline of 35% to 21% offset slightly by state tax rate increases. Operating tax expense was not materially impacted by changes in the tax law in 2017, with reductions in deferred tax assets of $1.3 million offset by an equivalent reduction in the valuation allowance. Tax expense related to credits to equity increased by $2 million in 2017, with an offsetting reduction in deferred tax assets as a result of the change in tax law.

Deferred tax assets recognized in the consolidated statements of financial position at December 31 are:

	2018	2017
Benefit plans and compensation	$ 6.6	$ 6.9
Other	-	0.4
	6.6	7.3
Valuation allowance	(2.9)	(2.9)
	$ 3.7	$ 4.4

Cash payments for income taxes were $5.9 million and $7.8 million in 2018 and 2017, respectively.

10. Deferred tenant improvement allowances

As part of the new headquarters lease agreement that commenced in 2013, the AMA received a $21.7 million tenant improvement allowance from the landlord in 2012 and 2013. In 2016, AMA renegotiated its office lease in Washington D.C. and received $1.4 million in new tenant improvement allowances. This was in addition to the initial $2.1 million allowance related to the Washington D.C. office space received in 2007. A new lease in New Jersey that was effective in 2017 included $0.2 million in tenant improvement allowances.

Prior to adoption of ASU No. 2016-02, tenant improvement allowances were recorded as a deferred liability on the consolidated statements of financial position and as a cash inflow from operating activities in the consolidated statements of cash flows. Capital expenditures funded by the tenant improvement allowances received were capitalized as leasehold

improvements on the consolidated statements of financial position and as capital expenditures in the consolidated statements of cash flows. The allowances were deferred and amortized on a straight-line basis over the life of the leases as a reduction of rent expense. The tenant improvement allowance liability was derecognized upon adoption of the new lease standard by AMA as of January 1, 2018, by reducing the value of the ROU asset by the remaining balance in deferred tenant improvement allowances as of December 31, 2017. See Note 12 for additional information.

11. Deferred rent obligations

Most office lease agreements included rent abatement as well as rent escalation clauses over the life of the lease. Prior to adoption of ASU No. 2016-02, AMA was required to recognize rent expense on a straight-line basis beginning on the earlier of the first rent payment or the date of possession of the leased property, with the difference between the amounts charged to expense and the rent payment recorded as a deferred rent obligation and amortized over the lease term. The deferred rent expense liability was derecognized upon adoption of the new lease standard by AMA as of January 1, 2018, by reducing the value of the ROU asset by the remaining balance in deferred rent obligations as of December 31, 2017. See Note 12 for additional information.

12. Leases

AMA leases office space at a number of locations and the initial terms of the office leases range from five years to 15 years. Most leases have options to renew at then prevailing market rates. As any extension or renewal is at the sole discretion of AMA and at this date, is not certain, the renewal options are not included in the calculation of the ROU asset or lease liability. AMA also leases copiers and printers in several locations. All office and equipment leases are classified as operating leases.

Adoption of the new lease standard as of January 1, 2018 has resulted in AMA recording noncash transactions to establish the liability for the present value of future lease payments of $101 million and derecognition of liabilities for deferred rent and deferred tenant improvement allowances of $22.5 million and $17.1 million, respectively, increasing total liabilities by $61.4 million. A ROU asset in an equivalent amount of $61.4 million was also established on the consolidated statement of financial position.

During 2018, AMA entered into new office space operating leases which resulted in establishing an additional $4.1 million in ROU assets and $4.4 million liability for the present value of future lease payments. The ROU asset was reduced by $0.3 million in tenant allowances received.
The ROU assets will be amortized over the lives of the leases and the present value of the liability will be increased by interest cost and reduced by cash payments.

Operating lease cost was $9.5 million in 2018. Cash paid for amounts included in the measurement of lease liabilities was $11.2 million. Rent expense under operating leases, including executory costs and taxes, was $13.3 million in 2017.

The weighted-average remaining lease term for operating leases is 9.9 years. The weighted-average discount rate used for operating leases is 5%.

The maturity of lease liabilities as of December 31, 2018:

2019	$ 12.2
2020	12.4
2021	12.5
2022	12.6
2023	12.2
2024 and beyond	65.4
Total lease payments	127.3
Less imputed interest	(28.1)
Present value of lease obligations	$ 99.2

13. Financial asset availability and liquidity

AMA has a formal reserve policy that defines the reserve investment portfolios as pools of liquid net assets that can be accessed to mitigate the impact of undesirable financial events or to pursue opportunities of strategic importance that may arise, as well as provide a source of capital appreciation. The policy establishes minimum required dollar levels required to be held in the portfolios (defined as an amount equal to one-year's general and administrative operating expenses plus long-term liabilities). The policy also covers the use of dividend and interest income, establishes criteria for use of the funds and outlines the handling of excess operating funds on an annual basis.

Dividend and interest income generated from the reserve portfolios are transferred to operating funds monthly and used to fund operations. The formal reserve policy contemplates use of reserve portfolio funds for board approved time- or dollar-limited strategic outlays, to the extent that the reserve

portfolio balances exceed the minimum amount established by policy. All surplus funds generated from operations annually (defined as operating cash plus other current assets minus current liabilities and deferred revenue at year end) are transferred to the reserve portfolios after year-end. The reserve policy does not cover the for-profit subsidiaries' activities.

AMA invests cash in excess of projected weekly requirements in short-term investments and money market funds. AMA does not maintain any credit facilities as the reserve portfolios provide ample protection against any liquidity needs.

The following reflects AMA's financial assets as of December 31, 2018 reduced by amounts not available for general use that have been set aside for long-term investing in the reserve investment portfolios or funds subject to donor restrictions. AMA's financial assets include cash, cash equivalents and donor restricted cash, short-term investments and long-term investments in the reserve portfolios.

Financial assets	$ 696.4
Less assets unavailable for general expenditures:	
Restricted by donor with purpose restrictions	(1.7)
Restricted by governing body primarily for long-term investing or for governing body approved outlays	(550.8)
Financial assets available to meet cash needs for general expenditures within one year	$ 143.9

In addition to financial assets available to meet general expenditures over the next 12 months, the AMA operates under a policy that requires an annual budget surplus, excluding time- or dollar-limited strategic expenditures approved by the board, and anticipates generating sufficient revenue to cover general ongoing expenditures.

14. Contingencies

In the opinion of management, there are no pending legal actions for which the ultimate liability will have a material effect on the equity of the AMA.

15. Subsequent events

ASC Topic 855, *Subsequent Events*, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. For the year ended December 31, 2018, the AMA has evaluated all subsequent events through February 15, 2019, which is the date the consolidated financial statements were available to be issued.

16. Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the Strategic Focus areas and Core Operations, Publishing, Health Solutions and Insurance, Membership and other supporting services. Such allocations are determined by management on an equitable basis.

The expenses that are allocated and the method of allocation include the following: fringe benefits based on percentage of compensation and occupancy based on square footage. All other expenses are direct expenses of each functional area.

	Membership	Publishing, Health Solutions and Insurance	Investments (AMA only)	Strategic Focus Areas and Core Operations	Governance, Administration and Operations	Health2047 and Subsidiaries	Total
Cost of goods sold and selling expense	$ -	$ 27.7	$ -	$ -	$ -	$ -	$ 27.7
Compensation and benefits	4.6	53.6	-	52.2	74.2	7.0	191.6
Occupancy	0.5	5.1	-	6.0	6.9	1.2	19.7
Travel and meetings	0.1	3.1	-	5.9	5.8	0.4	15.3
Technology costs	1.4	7.9	-	4.8	10.0	0.1	24.2
Marketing and promotion	8.9	0.6	-	3.3	-	0.6	13.4
Professional services and consulting	1.0	2.9	0.2	14.1	3.9	3.3	25.4
Other operating expense	0.9	6.9	0.5	7.6	3.4	1.6	20.9
2018 total expense	$ 17.4	$ 107.8	$ 0.7	$ 93.9	$ 104.2	$ 14.2	$ 338.2
Cost of goods sold and selling expense	$ -	$ 28.2	$ -	$ -	$ -	$ -	$ 28.2
Compensation and benefits	4.1	49.4	-	45.5	68.6	3.4	171.0
Occupancy	0.4	5.1	-	5.2	7.1	0.6	18.4
Travel and meetings	0.1	3.2	-	5.4	5.4	0.3	14.4
Technology costs	1.4	7.9	-	2.9	10.7	0.1	23.0
Marketing and promotion	6.8	0.9	-	11.8	-	0.5	20.0
Professional services and consulting	1.2	2.7	0.2	15.5	4.2	4.9	28.7
Other operating expense	0.9	5.8	0.6	10.2	3.6	0.7	21.8
2017 total expense	$ 14.9	$ 103.2	$ 0.8	$ 96.5	$ 99.6	$ 10.5	$ 325.5

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees of
American Medical Association:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the American Medical Association (the "AMA") and subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statement of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 15, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the AMA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AMA's internal control. Accordingly, we do not express an opinion on the effectiveness of the AMA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the AMA's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AMA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the AMA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the AMA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

February 15, 2019

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Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees of
American Medical Association:

Report on Compliance for Each Major Federal Program

We have audited the American Medical Association (the "AMA") and subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the AMA's major federal program for the year ended December 31, 2018. The AMA's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the AMA's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the AMA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the AMA's major federal program. However, our audit does not provide a legal determination of the AMA's compliance.

Opinion on Each Major Federal Program

In our opinion, the AMA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of the AMA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the AMA's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of

expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the AMA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

February 15, 2019

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

AMERICAN MEDICAL ASSOCIATION AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER:			
U.S. Department of Health and Human Services — Agency for Healthcare Research & Quality — passed through Northwestern University — Midwest Small Practice Care Transformation Research Alliance	93.226	5R18HS023921-03	$ 73,863
U.S. Department of Health and Human Services — Agency for Healthcare Research & Quality — passed through RAND Corporation — Health Insurance Expansion and Physician Distribution	93.226	R01HS025750	82,097
U.S. Department of Health and Human Services — Centers for Disease Control and Prevention — passed through National Association of Chronic Disease Directors — Diabetes Technical Assistance and Support	93.424	5 NU38OT000225-05	100,061
U.S. Department of Health and Human Services — Centers for Disease Control and Prevention -- passed through The National Council of Young Men's Christian Associations of the United States of America — Diabetes Prevention Program	93.424	6 NU38OT000183-04-02	60,897
U.S. Department of Health and Human Services — Centers for Medicare Medicaid Services — Transforming Clinical Practices Initiative — Support and Alignment Networks	93.639	1L1CMS331475-03-00 1L1CMS331475-04-00	561,900
U.S. Department of Health and Human Services — National Institutes of Health — passed through HCM Strategist, LLC — Provider Influencer Initiative (PII) All of Us Research Program	93.310	OT2OD023206	64,091
U.S. Department of Health and Human Services — Substance Abuse and Mental Health Services Administration — passed through American Academy of Addiction Psychiatry — Providers Clinical Support System for Opioid Therapies	93.243	1H79TI025595-03NCE	68,928
TOTAL FEDERAL EXPENDITURES			$ 1,011,837

See accompanying notes to the schedule of expenditures of federal awards.

1. SCOPE OF AUDIT

Entity Subject to Single Audit — The American Medical Association (the "AMA") is a national professional association of physicians with approximately 250,000 members. All federally funded operations of the AMA are included under the scope of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Programs Subject to Single Audit — A schedule of expenditures of federal awards is presented for the federal programs audited in accordance with the Uniform Guidance.

Fiscal Period Audited — Single Audit testing procedures were performed for the program transactions during the year ended December 31, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accompanying schedule of expenditures of federal awards includes the federal grant activity of the AMA and is presented on the accrual basis of accounting. The information presented in this schedule is presented in accordance with the Uniform Guidance. The amounts presented in this schedule are included in the AMA's consolidated financial statements.

Cost Allocation — The AMA has a policy that allows for the allocation of common costs such as salaries, employee benefits, occupancy, and other miscellaneous organizational costs relating to grant programs. Common costs are allocated to the specific grant based on the percentage of time spent by the specific support organization (department) on the grant. The AMA did not elect to use the de minimus indirect cost rate as allowed under the Uniform Guidance.

3. NONCASH ASSISTANCE AND FEDERAL INSURANCE

The AMA did not receive any noncash federal awards, federal insurance, or in-kind contributions during the year ended December 31, 2018.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

AMERICAN MEDICAL ASSOCIATION AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

PART I — SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report Issued: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified? ____ Yes __X__ None reported
- Noncompliance material to financial statements noted? ____ Yes __X__ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified? ____ Yes __X__ None reported

Type of Auditors' Report Issued on Compliance for Major Federal Programs: **Unmodified**

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ____ Yes __X__ No
- AMA's major federal program was the Research and Development Cluster
- A threshold of $750,000 was used to distinguish between Type A and Type B programs
- AMA qualifies as a low-risk auditee as that term is defined in 2 CFR 200.520

PART II — FINANCIAL STATEMENT FINDINGS

None.

PART III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

AMERICAN MEDICAL ASSOCIATION AND SUBSIDIARIES

SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

Prior-Year Financial Statement Findings

None.

Prior-Year Federal Award Findings and Questioned Costs

None.